



Natural Gas Weekly Update

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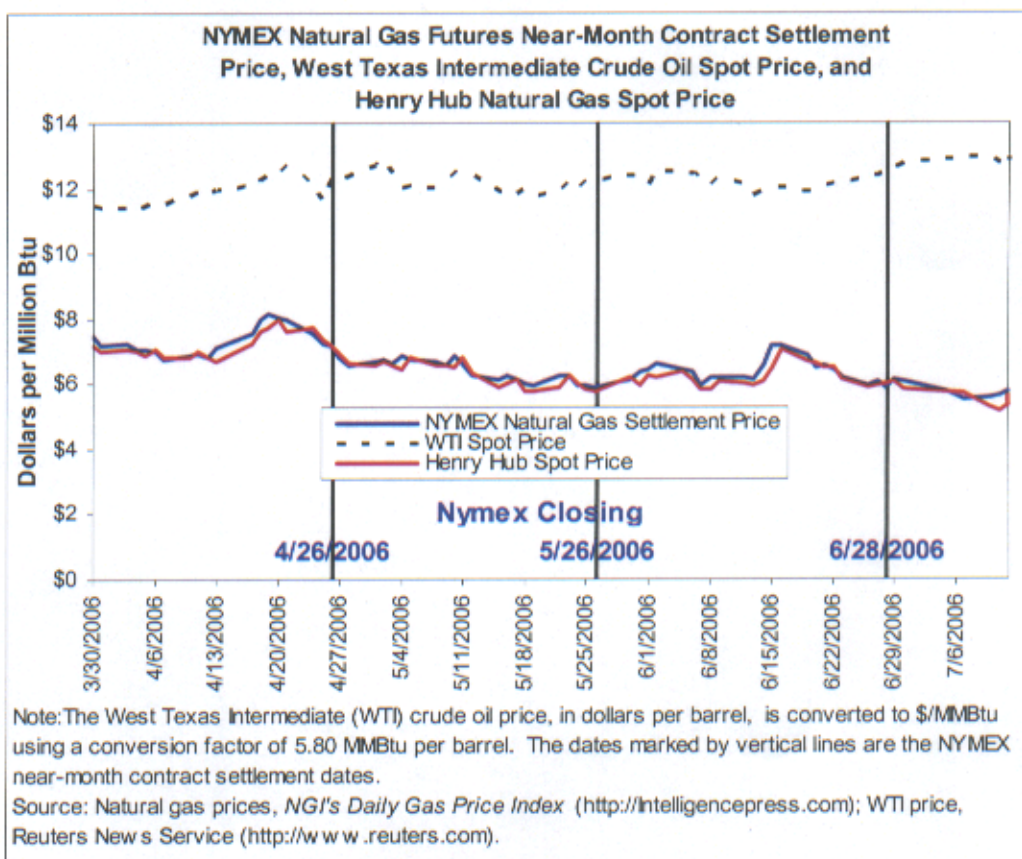
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Overview: Friday, July 13 (next release 2:00 p.m. on July 20, 2006)

Natural gas spot prices increased at most market locations in the Lower 48 States despite significant drops in prices at many locations early in the report week. The price at the Henry Hub was one of the few to decrease for the week (Wednesday – Wednesday July 5 to 12), declining 6 cents, or about 1 percent, to \$5.65 per MMBtu. The price of the NYMEX futures contract for August delivery settled at \$5.782 per MMBtu yesterday (July 12), which is 2 cents, or less than 1 percent, above last Wednesday's level. As of Friday, July 7, 2006, natural gas in storage was 2,704 Bcf or 27.4 percent above the 5-year average. The spot price for West Texas Intermediate (WTI) crude oil was \$74.99 per barrel or \$5.782 per MMBtu yesterday. This price is 21 cents per barrel less than the price last week, or less than 1 percent.



Prices:

Cooler-than-normal temperatures, ample natural gas in storage, and the lack of tropical storm activity caused significant decreases in natural gas spot prices late (Wednesday through Friday). However, hotter temperatures and high humidity weekend boosted demand for natural gas-fired power generation and prices rebounded each of the trading days since the weekend to finish yesterday (July 12) higher.

previous Wednesday (July 5) at most market locations. The spot price at the Henry \$5.65 yesterday, which is 6 cents or about 1 percent less than last Wednesday. exhibited much variation during the week, however, falling to \$5.18 per MMBtu on July 7, which is the lowest price at this location since November 2004. Similarly, the Transco Zone 6 in New York dropped to \$5.64 per MMBtu on Friday, which is the lowest price at this location since November 2004. This spot price rebounded over the weekend to average \$6.68 per MMBtu yesterday, which is 47 cents or about 8 percent higher than last Wednesday. Elsewhere in the Northeast, spot prices gained about 37 cents per MMBtu on average to \$6.43 per MMBtu yesterday. This region had the largest price increase this week as well as the highest prices. Of the few locations to post overall declines this week, Florida Gas Zone 3 in Louisiana and the Florida Gas Transmission System posted the largest declines at 23 cents and 52 cents per MMBtu, respectively.

Spot Prices (\$ per MMBtu)	Thur. 6-Jul	Fri. 7-Jul	Mon. 10-Jul	Tue. 11-Jul	Wed. 12-Jul
Henry Hub	5.28	5.18	5.32	5.52	5.65
New York	5.70	5.64	5.85	6.16	6.68
Chicago	5.15	5.06	5.28	5.49	5.65
Cal. Comp. Avg.*	5.32	5.05	5.35	5.56	5.73
Futures (\$/MMBtu)					
Aug delivery	5.664	5.523	5.608	5.633	5.782
Sep delivery	5.947	5.810	5.897	5.908	5.992

*Avg. of NGL's reported avg. prices for: Malin, PG&E citygate, and Southern California Border Avg.

Source: NGL's Daily Gas Price Index (<http://intelligencepress.com>).

The price of the New York Mercantile Exchange (NYMEX) futures contract for delivery at the Henry Hub increased about 2 cents, or less than 1 percent, to \$5.65 per MMBtu since last Wednesday, July 5. The August contract reached a low settlement for the week on Friday, July 7, at \$5.523, which is the lowest price for this contract since 2004, and the lowest price listed for any contract during this report week. The near-month contracts listed through March 2007 (the end of the next heating season) decreased for the week, with declines ranging between 3 cents and 11 cents per MMBtu, or about 0.5 percent. Beyond March 2007, the contracts increased at similarly modest increments. The heating season contracts (November 2006 – March 2007) settled at \$9.435 per MMBtu average yesterday, which is about \$3.79 per MMBtu higher than yesterday's Henry Hub price, offering continuing economic incentive to inject natural gas into storage. The near-month contracts are also 47 cents higher than the equivalent 2005 contracts at this time of year, despite higher-than-normal inventories of natural gas. This may reflect continued uncertainty about upcoming summer and winter demand patterns.

Recent Natural Gas Market Data

Estimated Average Wellhead Prices

	Jan-06	Feb-06	Mar-06	Apr-06	May-06	June-06
Price (\$ per Mcf)	8.66	7.28	6.52	6.59	6.19	5.80
Price (\$ per MMBtu)	8.43	7.09	6.35	6.42	6.03	5.65

Note: Prices were converted from \$ per Mcf to \$ per MMBtu using an average heat content of 1,027 Btu per cubic foot as published in Table A4 of the [Annual Energy Review 2002](#).

Source: Energy Information Administration, Office of Oil and Gas.

Storage:

Working gas in storage increased to 2,704 Bcf, as of Friday, July 7, which is 27.4 percent above the 5-year average inventory level for the report week, according to EIA's *Weekly Natural Gas Storage Report* ([See Storage Figure](#)). The implied net injection of 89 Bcf is 10 percent less than the 5-year average injection of 99 Bcf and roughly 1 percent more than last year's injection of 88 Bcf. According to EIA's *Short Term Energy Outlook* (see Other Market Trends, below), the relatively warm winter weather and the large difference by which prices for future delivery contracts for the 2006-2007 winter months exceeded spot prices account for much of the current high storage level. Although storage levels are still unusually high, the difference between this year's level and the 5-year average level has been decreasing since mid-May. For the week ending May 12, the storage level exceeded the 5-year average by 722 Bcf, whereas this week's level exceeds the 5-year average by 581 Bcf. The smaller-than-normal injection this week partly reflects an increase in demand for air conditioning load as hot temperatures and humid conditions moved across the United States. For the week ending July 8, 2006, there were 10 percent more cooling degree days than normal as measured by the National Weather Service, with above normal temperatures in every Census Division except for the West South Central. ([See Temperature Maps](#))

	Current Stocks 7/7/06	One-Week Prior Stocks 6/30/06	Implied Net Change from Last Week	Estimated Prior 5-Year (2001-2005) Average	Percent Difference from 5 Year Average
All Volumes in Bcf					
East Region	1,464	1,409	55	1,140	28.4%
West Region	376	362	14	309	21.7%
Producing Region	864	844	20	673	28.4%
Total Lower 48	2,704	2,615	89	2,123	27.4%

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Row and column sums may not equal totals due to independent rounding.

Other Market Trends:

EIA's Short-Term Natural Gas Outlook: According to the agency's *Short-Term Energy Outlook*, released July 11, 2006, the Energy Information Administration (EIA) expects that total U.S. natural gas consumption in 2006 will fall below 2005 levels by about 36 Bcf, or 1.7 percent. In 2007 total natural gas consumption is expected to reach 22.5 Tcf. Because of the record high temperatures in January, residential natural gas consumption in 2006 is projected to be 7.4 percent less than the 2005 level and then increase by 8.8 percent in 2007 to almost 4.9 Tcf. In 2005, domestic dry natural gas production declined by 2.7 percent, largely owing to hurricane-damaged infrastructure in the Gulf of Mexico. Dry natural gas production is projected to increase by 0.6 percent in 2006 and 1.1 percent in 2007 to 18.6 Tcf, however the expected increases in 2006 and 2007 are not large enough to offset the 2005 decline. Total liquefied natural gas (LNG) imports also are expected to increase, growing to 760 Bcf in 2006 and to 1 Tcf in 2007. The increased supply coupled with the decreased consumption will lead to a 14.1-percent decrease in the average annual Henry Hub spot price in 2006, which averaged \$8.86 per Mcf in 2005 and is expected to average \$7.61 per Mcf in 2006. Expected future supply tightness and continuing pressure from high crude oil prices likely will lead to higher natural gas spot prices next winter, with the Henry Hub spot price projected to average \$9.35 per Mcf between November 2006 and March 2007. The Henry Hub spot price is

expected to average \$8.13 per Mcf in 2007. Natural gas inventories in underground storage are projected to reach about 3,445 Bcf by the beginning of the 2006-2007 natural gas heating season (November 1, 2006), which is 250 Bcf or 7.8 percent higher than the natural gas stocks at the onset of the 2005-2006 heating season.

EIA Issues Report on U.S. Producing and Nonproducing Reserve Trends: The Energy Information Administration released a special report titled, *United States Producing and Nonproducing Crude Oil and Natural Gas Reserves From 1985 Through 2004*, on Monday, July 10. Nonproducing reserves are those that are unavailable to the crude oil and natural gas markets currently, but are expected to become available in the future. The report explains that the proportion of these nonproducing reserves relative to total reserves has grown since 1985 for both crude oil and natural gas in almost every major domestic production region, but there are several differences when examining the trends. For example, the increase in nonproducing natural gas reserves occurred over a relatively short period between 1997 and 2004, whereas the growth in nonproducing crude oil reserves occurred at a relatively consistent pace over the 1985 through 2004 period. Also, the rise in nonproducing crude oil reserves is largely a Louisiana-Federal Offshore region phenomenon, while the growth in nonproducing natural gas reserves is largely an onshore lower 48 phenomenon. The report also offers potential causes for the growth in nonproducing crude oil and natural gas reserves, such as a lengthening of the time required to drill new wells, install production facilities, and construct pipeline infrastructure.

Natural Gas Transportation Update:

- Southern California Gas Company issued a high-linepack operational flow order (OFO), announcing that it would assess buy-back charges to customers who deliver into its system more than 110 percent of their actual gas usage on the OFO day. The OFO was extended through at least Saturday, July 15.
- As of Friday, July 7, until further notice, Northwest Pipeline Corporation was not accepting requests for interruptible storage injections at its Jackson Prairie storage facility. Additionally, all interruptible Jackson Prairie customers must bring their balances to zero by July 14. However, park and loan service remains available on a limited basis.
- The Sea Robin Processing Plant in Erath, Louisiana, came back on-line and resumed processing on Friday, July 7, after having suspended operations the previous Wednesday.

Short-Term Energy Outlook

<http://tonto.eia.doe.gov/oog/info/ngw/ngupdate.asp>

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